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5 BEFORE THE ARIZONA CORPORATION COMMISSION

6 DOCKET CONTROL

7 IN THE MATTER OF THE APPLICATION
8 OF PAYSON WATER CO., INC., AN ARIZONA
9 CORPORATION, FOR A DETERMINATION OF
10 THE FAIR VALUE OF ITS UTILITY PLANTS
11 AND PROPERTY AND FOR INCREASES IN
12 ITS WATER RATES AND CHARGES FOR
13 UTILITY SERVICE BASED THEREON.
14

DOCKET NO. W-03514A-13-0111

Arizona Corporation Commission

DOCKETED

MAR 10 2014

DOCKETED BY

15 IN THE MATTER OF THE APPLICATION
16 OF PAYSON WATER CO., INC., AN ARIZONA
17 CORPORATION, FOR AUTHORITY TO (1) ISSUE
18 EVIDENCE OF INDEBTEDNESS IN AN AMOUNT
19 NOT TO EXCEED \$1,238,000 IN CONNECTION
20 WITH INFRASTRUCTURE IMPROVEMENTS TO
21 THE UTILITY SYSTEM; AND (2) ENCUMBER
22 REAL PROPERTY AND PLANT AS SECURITY
23 FOR SUCH INDEBTEDNESS.
24

DOCKET NO. W-03514A-13-0142

25 **Final Brief, East Verde Park (EVP) Recommended Resolution for the Payson Water Company**
26 **(PWC) Phase 2 Rate Case**
27

28 I, Thomas Bremer, an intervenor in the subject PWC rate case on behalf of the EVP service area,
29 participated in the Phase 2 hearings on February 4, 5, 7, 10, and 14, 2014.
30

31 During the opening statements on February 4, PWC's attorney Jay Shapiro stated that PWC agrees with
32 ACC Staff's recommendations per Staff's January 24, 2014 Supplemental Surrebuttal Testimony (Phase
33 2 Hearing Exhibits S9, S13, S16, and S17), including consolidated rates and rate design for all PWC
34 service areas including EVP. This also included PWC agreement with Staff's recommendations for the
35 EVP water hauling surcharge, with Mr. Shapiro noting the exception that the Staff's recommended
36 \$10,000 cap on yearly water hauling surcharge is not agreeable to PWC.

Table 1 below summarizes the rates and fees that EVP ratepayers currently pay, as well as the proposed rates and fees of PWC's original and subsequent proposals, and ACC Staff's latest proposal, with which PWC now agrees, with the exception of the cap on water hauling surcharges as noted above.

Table 1. Comparison of Rate Hike Proposals During PWC Rate Case

	Base Fee	Cost per 1000 Gallons		Curtailment Plan for Stages 3, 4, 5	Total Water Bill for Gallons Used***				
					0	1000	3000	5000	8000
PWC's Current Rate Structure	\$16.00	Any amount of gallons	\$1.93	Current curtailment plan*	\$16.00	\$17.93	21.79 (baseline)	\$25.65	\$31.44
PWC's Rate Case Application, April 22, 2013, and Public Notice September 2013	\$39.24	0-4000 gal	\$2.75	Current curtailment plan*	\$39.24	\$41.99	\$47.49 (118% average increase)	\$62.99	\$77.24
		4000-10,000 gal	\$4.75						
		Over 10,000 gal	\$6.75						
PWC's Joinder Testimony, December 6, 2013	\$25.42	0-3000 gal	\$5.90	Curtailment Plan per Exhibit JW-RB3 of Phase 2 Hearing Exhibit A-15. Includes daily maximum water use limits, and month-over-month required reduction in water use, and very high reconnection fees.	\$25.42	\$31.32	\$43.12 (98% average increase)	\$63.67	\$86.62
		3000-10,000 gal	\$7.65						
		Over 10,000 gal	\$9.15						
Staff's Supplemental Rejoinder Testimony, January 24, 2014 (Agreed to by PWC during Hearing on February 4, 2014, except for \$10,000 yearly cap on water hauling surcharges which PWC did not agree to)	\$23.00	0-3000 gal	\$4.00	Current curtailment plan*	\$23.00	\$27.00	\$35.00 (61% average increase)	\$50.33	\$73.32
		3000-10,000 gal	\$7.66						
		Over 10,000 gal	\$9.62						
					PLUS water hauling surcharge May thru Sept, estimated about \$17.00** per month on average, based on 2012 EVP water hauling data (176% increase with hauling surcharge)				
					PLUS water hauling surcharge May thru Sept, estimated about \$14.00** per month on average, based on \$10,000 Staff recommended cap on yearly water hauling surcharge (125% increase with hauling surcharge)				

*The current curtailment plan has been in effect since 2005 (Ref: ACC Decision 67821, Docket W-03514A-04-0906; Phase 2 Hearing Exhibit S-4). It recommends reductions in monthly water use of 30% for Stage 3, 40% for Stage 4, and 50% for Stage 5, but does not disconnect service and impose fines for water use exceeding the recommended reductions. The current plan does call for disconnection of service and reconnection fines for outdoor watering, car washing, etc. with fines increasing from Stage 3 to Stage 5.

**An individual customer's water hauling surcharge may be considerably higher, depending on amount of water the customer uses. Hauled water is estimated to cost upwards of \$35.00 per 1000 gallons, but this may vary depending upon Town of Payson charge for water and the fees charged by the water hauling contractor. There is no limit specified in either the PWC or Staff proposals for the maximum per-gallon surcharge for hauled water. There is no requirement that PWC controls the cost of water hauling.

***Does not include taxes.

1 POSITION OF EVP RATEPAYERS

2 It has been, and continues to be the position of EVP ratepayers that no fee and rate increases or water
3 hauling surcharges should be granted in light of PWC's history of chronic water restrictions every summer
4 and the decaying condition of the EVP water system. The grievances of EVP customers were raised 13
5 years ago, as documented in correspondence between then-EVP water chairman Bob Gardener in late
6 2000, and responded to in early 2001 by PCW's then-president Robert Hardcastle, who acknowledged
7 the need for water system improvements and, but nothing was done then or since. Additionally, a water
8 survey was conducted at EVP in 2012 and presented to Mr. Hardcastle on March 20, 2013, which
9 revealed the continuing dissatisfaction and frustration of EVP ratepayers with the continuing chronic
10 summer shortages and poor maintenance of the EVP water system. The past history of PWC's poor
11 service and 2012 EVP water survey were documented in my filing of November 19, 2013, Phase 2
12 Hearing Exhibit TB-1.

13
14 Therefore, in response to PWC's public notice regarding the Phase 1 MDC-TOP financing and the Phase
15 2 rate case (which was provided with insufficient notice for full participation of EVP ratepayers in the
16 September 25 Phase 1 Hearing), EVP residents responded with the EVP Petition that was provided with
17 my filing of November 19, 2013, Phase 2 Hearing Exhibit TB-1, and again with signatures in my filing of
18 January 6, 2014, Phase 2 Hearing Exhibit TB-2.

19
20 WITH RESPECT TO FEES AND RATES FOR WATER SERVICE:

21 Central to the EVP petition is our request that any rate and fee increases are tied to an integrated plan
22 and commitment for water system improvements at EVP, to prevent chronic water shortages, low water
23 pressure, and the need for water hauling. Clearly, PWC has made it a priority to address similar issues at
24 Mesa Del Caballo as part of this present rate case. There is no justification that other PWC service areas
25 including EVP are not being given the same consideration. Therefore, we request that the Commission
26 reject any rate and fee increases for EVP ratepayers without such integrated plan for EVP water system
27 improvements

28
29 However, in light of Staff's recommendations for rate and fee increases, if rate and fee increases are
30 granted, we request the Commission to assure that the outcome of this rate case is just and reasonable,
31 as required by ARS 40-261, and strikes a fair balance between PWC profit and customers' rights, as
32 embodied in the Arizona Supreme Court's decision in the 1979 case of Arizona Community Action v. ACC
33 v. Arizona Public Service Company: "The interests of public service corporation stockholders must not be
34 permitted to overshadow those of the public served," and "The effect of the rate upon persons to whom
35 services are rendered is as deep a concern in the fixing thereof as is the effect upon stockholders or
36

1 bondholders". The pleas of EVP residents are documented in over 40 public comments and complaints
2 by EVP customers that have been filed on the rate case docket.

3
4 Staff's latest proposed fee and rate structure, which is summarized in Table 1, support a 61 percent
5 increase in the average water bill for PWC customers, excluding any water hauling surcharges. While
6 this provides some relief from PWC's initial April 22, 2013 proposal for a 119 percent increase on
7 average, this latest fee and rate proposal will still be a hardship for many ratepayers, especially those
8 retired and on fixed incomes. Especially for EVP ratepayers, a 61% increase (or more, depending on
9 individual water use) seems unfair considering that for 5 months of the year we experience severe water
10 restrictions. In short, we are being asked to pay a lot more for water service, and then we are told, "you
11 can only have minimal water service", not to mention additional water augmentation surcharge.

12
13 WITH RESPECT TO WATER AUGMENTATION (HAULING) SURCHARGES:

14 EVP ratepayers continue to strongly object to water hauling surcharges.

15 1) As described in my filing of January 6, 2014, Phase 2 Hearing Exhibit TB-2, PWC previously
16 proposed water hauling surcharges for the EVP community, in the Docket W-03514A-12-0300
17 Document No. 0000136602, "PWC Proposed Curtailment Tariff for EVP Water System", July 3, 2012.
18 The ACC wisely rejected this proposal in Document No. 0000138079 of the same docket, noting that
19 "Expenses of these amounts provide insufficient information for Staff to conclude that any of the three
20 usual requirements (situation of sudden change, situation of Company insolvency, or inability to
21 maintain service) have been met to qualify as an emergency. Based on the information filed by the
22 Company, Staff concludes there is no emergency condition existing currently." At EVP there
23 continues to be no emergency that causes summer water shortages. There is only the fact that PWC
24 has never upgraded the EVP water system to provide adequate water production and storage
25 capacity, as was promised by PWC in 2001. The increased water production at EVP needed to avoid
26 water hauling is less than 10% of current water production, based on test year 2012, and there are a
27 number of productive private wells in service throughout the EVP neighborhood. PWC's customers at
28 EVP already maintain a water-frugal lifestyle, with one of the lowest per-customer water consumption
29 rates in PWC's service communities--even lower than at Mesa Del Caballo when they were subjected
30 to PWC's curtailment plan, based on 2012 data.

31
32 2) Furthermore, it is not clear that PWC is able to accurately track the amount of water hauling in order
33 to assure that hauling surcharges will accurately reflect the hauled water used by EVP customers.
34 Consider the EVP water data provided in Exhibit "A" of PWC's original rate application, Phase 2
35 Hearing Exhibit A6. PWC's data indicated that gallons pumped at EVP exceeded gallons sold by
36 more than 2 million gallons, which would clearly not support need for water hauling at EVP.

Confronted with their own 2012 data in my filing of January 6, 2014, Phase 2 Hearing Exhibit TB2, PWC responded with "corrected" 2012 EVP water data in Exhibit JW-SRJ3 of their filing of January 15, 2014, Phase 2 Hearing Exhibit A16. But the corrected EVP water data still shows major discrepancies. For the three months in 2012 when there was water hauling, PWC showed (negative) -91,840 gallons of water loss from the EVP water system, as if water was somehow leaking into the EVP water system from external sources. But doing the math myself, the water loss from the EVP water system was (positive) +127,867 gallons. This is summarized in Table 2 below. Such a huge amount of water loss due to system leakage is not realistic, especially considering PWC's asserting that the EVP water system has very low leakage.

Table 2. PWC "Corrected" 2012 Water Data for EVP and Calculated Figures
Reference Exhibit JW-SRJ3 of PWC filing January 15, 2014

Month	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>
Meter Read Dates	5/14-6/14	6/14-7/12	7/12-8/13
Production Read Dates	5/14-6/14	6/14-7/12	7/12-8/13
Connections	142	141	140
Production	486840	333180	354120
Hauled in	51817	153359	14531
Production + Hauled in (PWC data)	538657	486539	368651
Production + Hauled in (Calculated)	538657	486539	368651
Consumption	494820	414244	356916
Water Loss (PWC data)	-7980	-81064	-2796
Water Loss (Calculated)	43837	72295	11735
Total Water Loss Jun-Aug, 2012 (Positive=Loss; Negative=Gain)			
		PWC Data	-91840
		Calculated Data	127867

So where did the water go? Either PWC was hauling water out of EVP during the summer months, as has been alleged anecdotally by both EVP and MDC residents, or PWC again has bad data. If the former, then again water hauling surcharges cannot be justified. And if the latter, then how are EVP residents to trust that water hauling surcharges appearing on their monthly water bill statements reflect accurate data. There are no provisions in the Staff proposal for any type of oversight or audit of PWC water hauling surcharge calculations. Therefore, the EVP ratepayers ask the Commission to deny PWC's request for water hauling surcharges at EVP.

1 However, in light of Staff's apparent support for an EVP water augmentation surcharge, in Phase 2
2 Hearing Exhibits S16 and S18, if a PWC water hauling surcharge for EVP is granted, we request that the
3 yearly cap no higher than \$10,000 for water hauling surcharges is implemented, consistent with Staff's
4 recommendation in Phase 2 Hearing Exhibit S16. Furthermore, we request the Commission to consider
5 the proposal described in my filing of February 14, 2014, Phase 2 Hearing Exhibit TB5, which proposes to
6 calculate a threshold amount of water use during the May-September augmentation period, within the
7 capability of local well production, below which an EVP customer would not be assessed a water hauling
8 surcharge. The intent is to mitigate the impact on low income ratepayers who already adopt a very water-
9 frugal lifestyle, and whose water use is low to the point where it is not the cause of production shortfalls
10 that require water hauling in the first place.

11 Tom Bremer

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13 Submitted this 10th day of March, 2014.

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19 ACC Docket Control (13 copies)

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